

Annual meeting

12 JULY 2017



THE FLORAL ATELIER, SINGAPORE

Important notice

This presentation is given on behalf of Xero Limited (NZX/ASX:XRO)
(Company number NZ 183 0488, AU ARBN 160 661 183)

Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription, purchase, or recommendation of securities in Xero Limited
- should be read in conjunction with, and is subject to, Xero's latest and prior interim and annual reports, including Xero's annual report for the period ended 31 March 2017, and Xero's market releases on ASX and NZX
- includes forward-looking statements about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero's control – Xero's actual results or performance may differ materially from these statements
- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance, and
- may contain information from third parties believed to be reliable; however, no representations or warranties are made as to the accuracy or completeness of such information.

All information in this presentation is current at 31 March 2017, unless otherwise stated.

All currency amounts are in NZ dollars, unless otherwise stated.

See Page 41 for a glossary of the key terms used in this presentation.



Graham Smith

Chair's address

Board of Directors



Rod Drury

Xero founder and one of Australasia's leading technology entrepreneurs. Awarded AMS Global Marketer of the Year 2017, New Zealand Entrepreneur of the Year in 2013 and NZ Business Leader of the Year in 2012.



Lee Hatton

More than 20 years of financial services experience and is currently CEO of UBank, Executive General Manager of Direct Banking at National Australia Bank (NAB) and Executive Director of the NAB Venture Fund.



Susan Peterson

More than 15 years of financial services experience. Currently an independent director of listed companies Trustpower, Vista Group, Property for Industry, and ASB Bank. Susan is also a member of the NZ Markets Disciplinary Tribunal.



Graham Smith

More than 25 years of finance experience in the software and SaaS industry including CFO of Salesforce.com. Currently also serves on the Board of Directors at Splunk, MINDBODY, BlackLine and Citrix.



Bill Veghte

More than 20 years of experience at Microsoft in business and engineering leadership roles. Bill is currently Executive Chairman of Turbonomic and was previously HP's Chief Operating Officer, and CEO and Director at SurveyMonkey.



Craig Winkler

Co-founded MYOB, Australian small business accounting software provider, in 1991. Over 30 years of experience in software and business leadership roles.



Craig Elliott

Director farewell

Resolutions



LIVINGSEAS, TIOMAN, SINGAPORE

Fixing the Remuneration of the Auditor

RESOLUTION 1

That the Board is authorised to fix the remuneration of the auditor.

PROXIES

For

76,400,552 (99.62%)

Against

121,127 (0.16%)

Discretionary

170,556 (0.22%)

Election of Susan Peterson as a Director

RESOLUTION 2

That Susan Peterson, appointed by the Board as a Director on 22 February 2017, be elected as a Director of Xero Limited.

PROXIES

For

75,203,816 (98.07%)

Against

1,304,161 (1.70%)

Discretionary

177,815 (0.23%)

Re-election of Lee Hatton as a Director

RESOLUTION 3

That Lee Hatton, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited.

PROXIES

For

76,433,060 (99.67%)

Against

79,573 (0.10%)

Discretionary

176,185 (0.23%)

Non-Executive Director Remuneration

RESOLUTION 4

(a) That the maximum annual remuneration able to be paid to all of the Non-Executive Directors taken together be increased from NZ\$850,000 to NZ\$1,400,000 (i.e., a NZ\$550,000 increase), with immediate effect; and (b) that such remuneration payable to Non-Executive Directors may be payable either in part or in whole by way of an issue of Equity Securities (as defined in the NZX Listing Rules).

PROXIES

For

57,904,081 (93.12%)

Against

4,144,489 (6.66%)

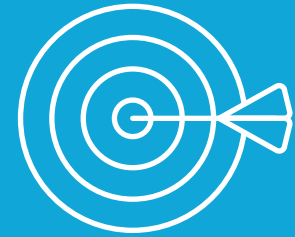
Discretionary

135,166 (0.22%)



Business overview

Sankar Narayan
CHIEF OPERATING AND
FINANCIAL OFFICER



Partner focus

Anna Curzon
CHIEF PARTNER OFFICER



Strategy update

Rod Drury
CHIEF EXECUTIVE OFFICER, FOUNDER



Q&A

Business overview



Sankar Narayan

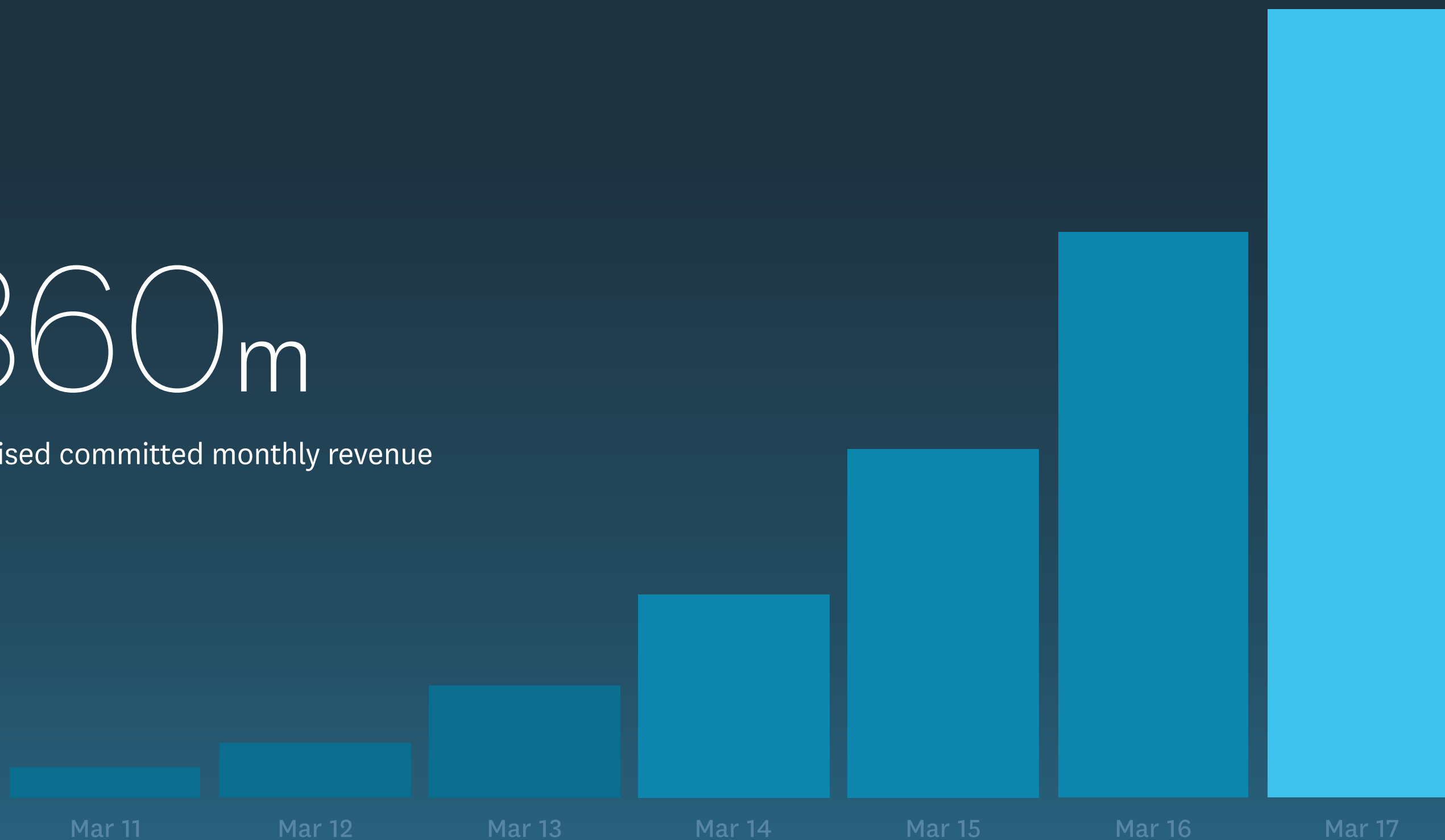
CHIEF OPERATING AND FINANCIAL OFFICER



HOT POD YOGA, UNITED KINGDOM

\$360m

Annualised committed monthly revenue



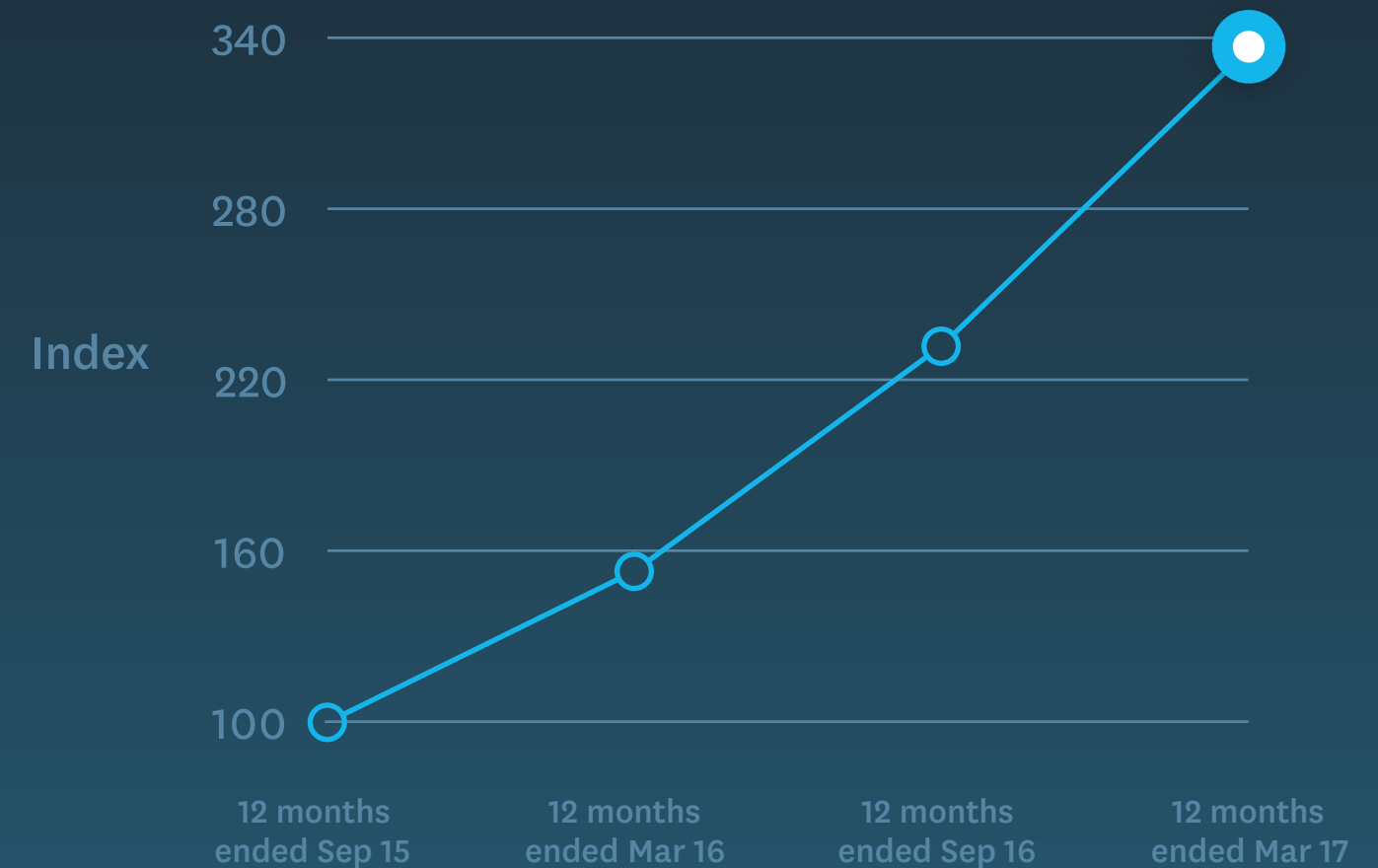
Subscriber growth with revenue growth

Quality subscribers essential to ensure long-term margins and lifetime value

Long-term subscribers that recognise value in the service

Growing revenues faster than subscribers delivers strong SaaS economics

Indexed 12 month ACMR growth¹



¹ Change in constant currency ACMR indexed to a base of 30 September 2014 FX rates

Xero is a global small business platform

Subscribers at 31 March 2017



Leading cloud accounting platform



Xero versus nearest global competitor cloud subscribers¹

(excluding North America)

Balanced investment

Growth with operating efficiencies

ANNUALISED COMMITTED
MONTHLY REVENUE

\$360m

+45% YoY¹

OPERATING
REVENUE

+51%
YoY²

\$295m

EBITDA MARGIN
EXCL. SBP³

(6%)

+16pp YoY
Positive in H2

NET LOSS
AFTER TAX

(\$69m)

Reduced 16% YoY

TOTAL GROUP SUBSCRIBER
LIFETIME VALUE

+\$688m

\$2.2b

¹ Constant currency based on 31 March 2016 FX rates

² Constant currency based on respective 12 month prior FX rates

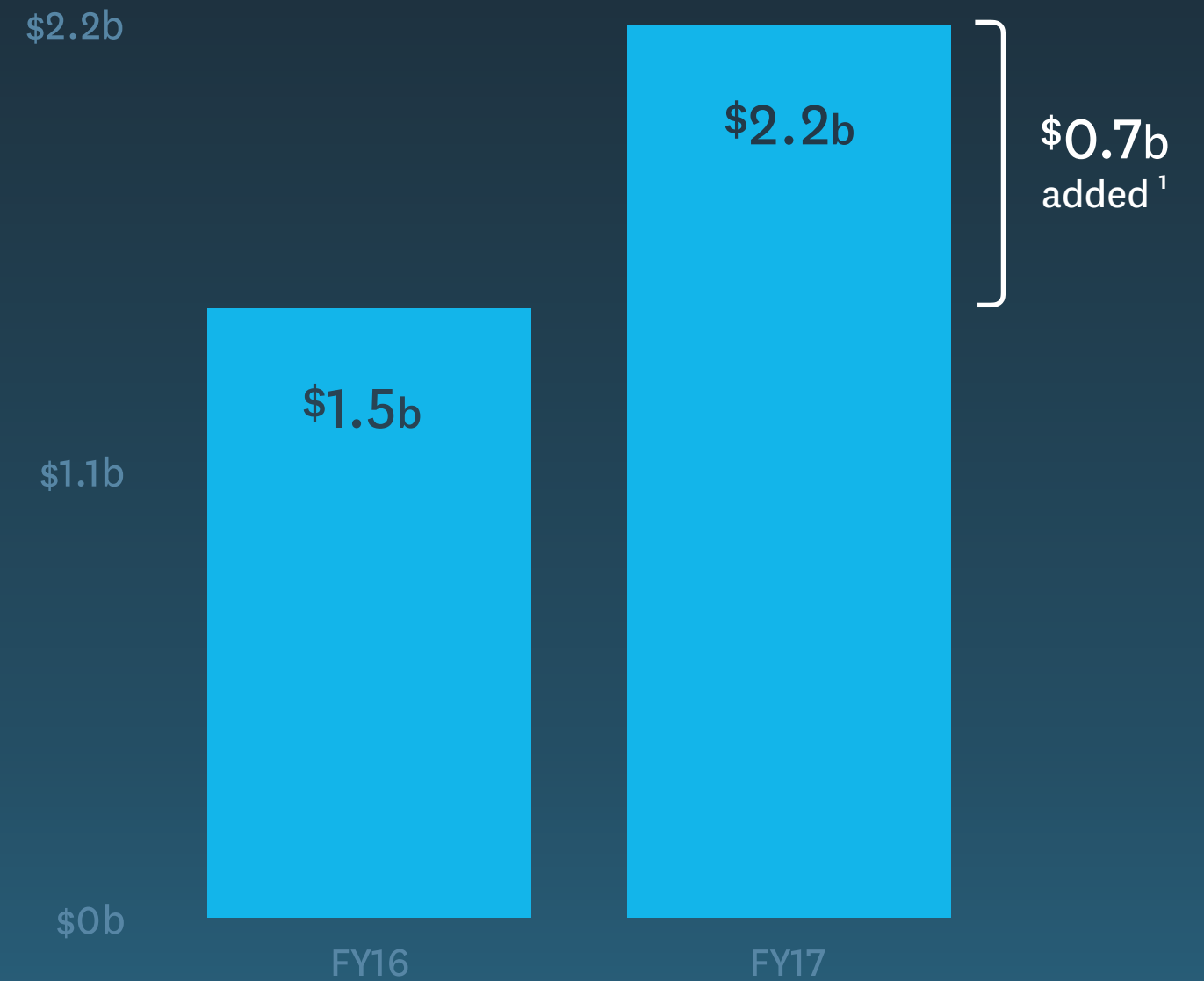
³ SBP are a non-cash cost to Xero

\$688m of value added in subscriber base

Improved key underlying drivers of lifetime value

	March 2017	Progress from March 2016
Subscribers net adds	318,000	↑
ARPU	\$29	—
CMR churn %	1.15%	↓
Gross margin	77%	↑
LTV per subscriber	\$2,121	+4% ²

Total group subscriber lifetime value (LTV)



¹ Added in the year to 31 March 2017

² Constant currency based on 31 March 2016 FX rates

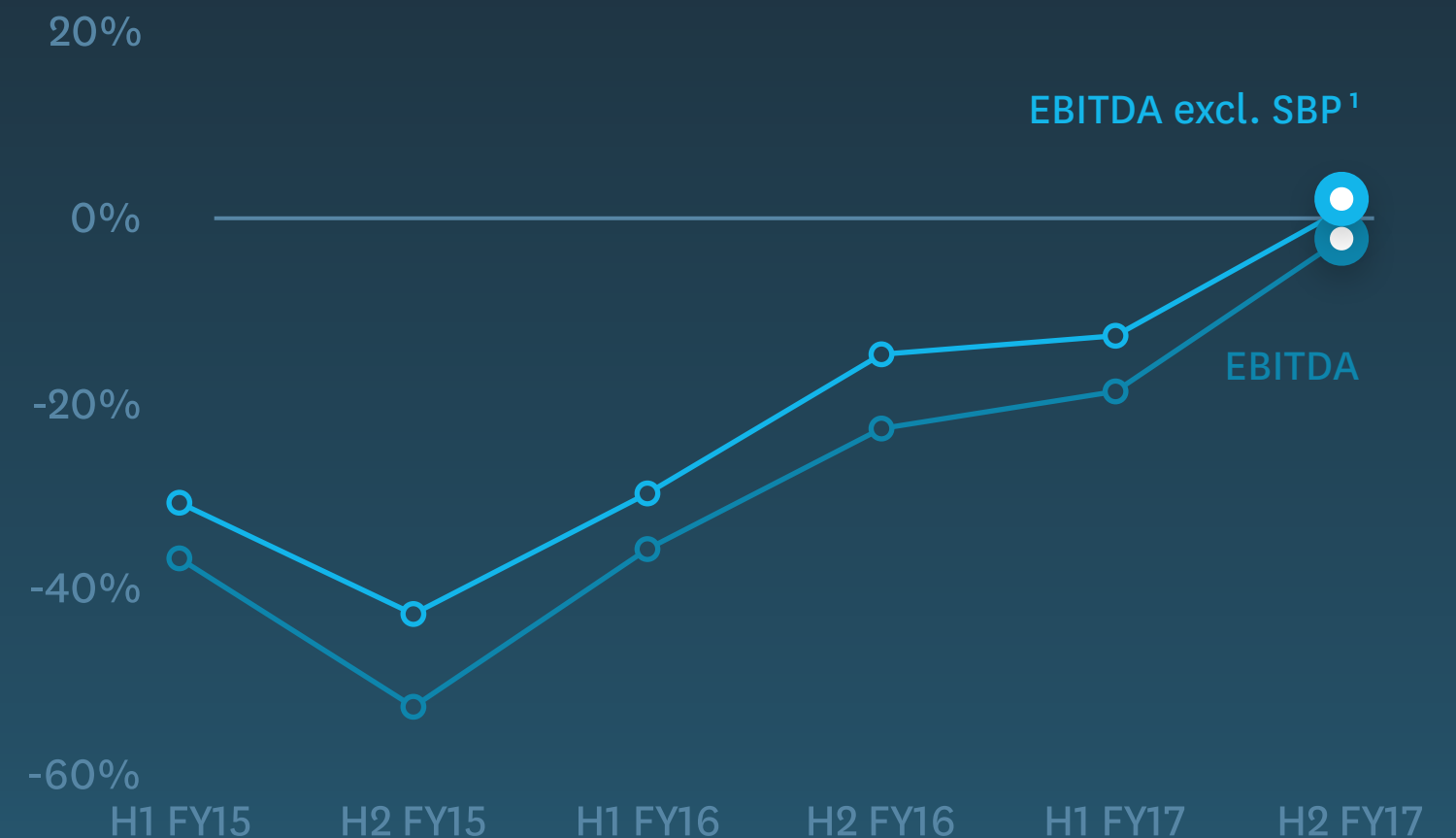
Improved EBITDA

EBITDA excl. SBP¹ was positive in H2 FY17 at \$1.6m compared to a \$(17.4m) loss in H2 FY16

Significant improvement in EBITDA performance driven by:

- Higher gross margin
- Improved CAC efficiencies
- Product specific economies of scale
- Improved efficiencies in general and administration costs

EBITDA margins



Reducing cash usage

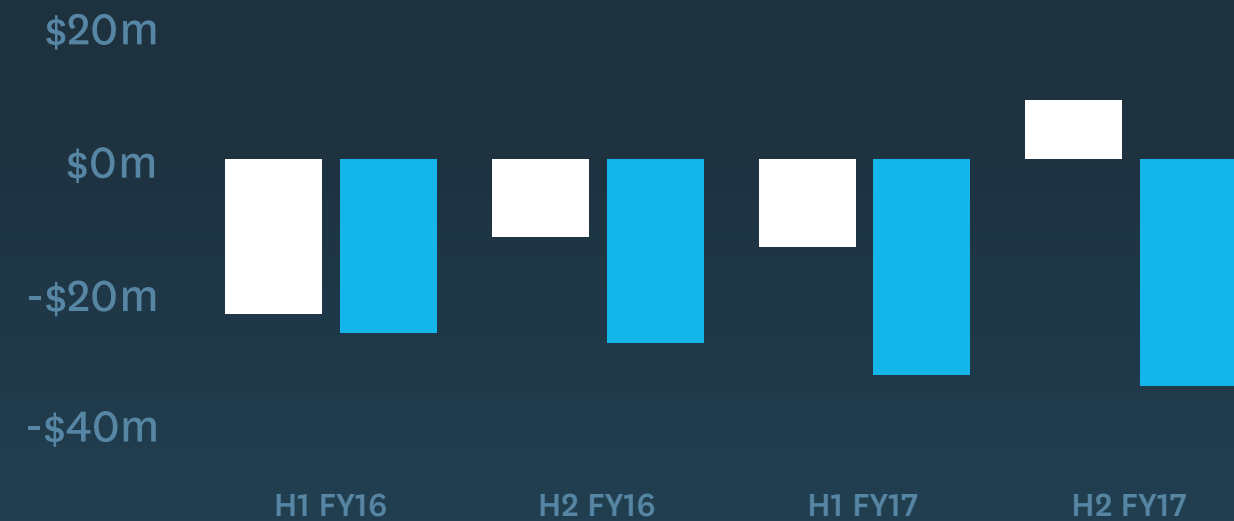
Operating cash outflow in FY17 reduced to \$4.4 million from \$34.8 million in FY16

Operating cash flow positive for the first time in H2 FY17. Cash outflow of \$11.4 million for H2 FY16

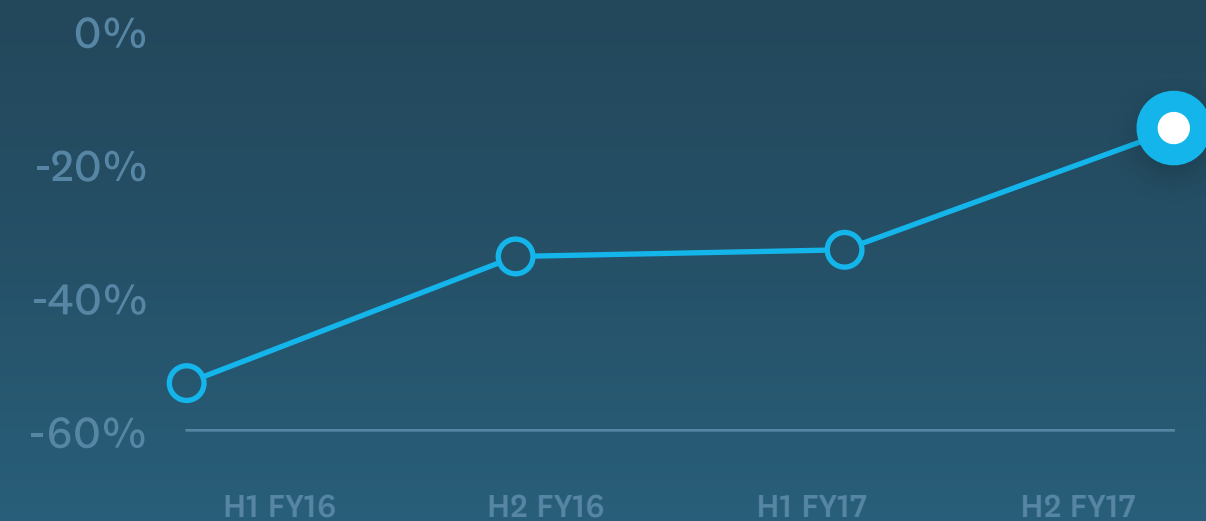
Operating and investing cash outflows declined from \$88.6 million in FY16 to \$70.8 million in FY17

Cash and short-term deposits balance at 31 March 2017 was \$113.7 million

Operating cash flows and investing cash flows



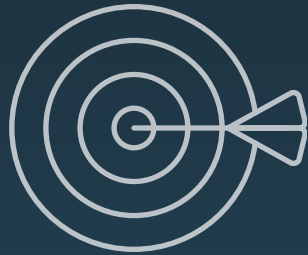
Cash outflow¹ as % of revenue



Xero – a strong margin model

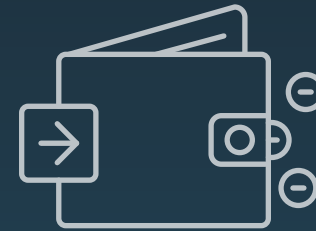


Outlook



OPERATING EFFICIENCIES

Operating metrics are expected to improve in FY18 as the Company drives efficiencies through automation and economies of scale.



CASH USAGE

Cash usage in FY18 (based on FX rates at 1 April 2017) is forecast to reduce from FY17. Xero is managing the business to cash flow break-even within its current cash balance.

Disciplined execution in a large unaddressed market

Disciplined focus on quality growth



Extending the global platform and footprint



Investing in innovation and long-term growth



Driving operating excellence



Extending into new product and services

Partner focus

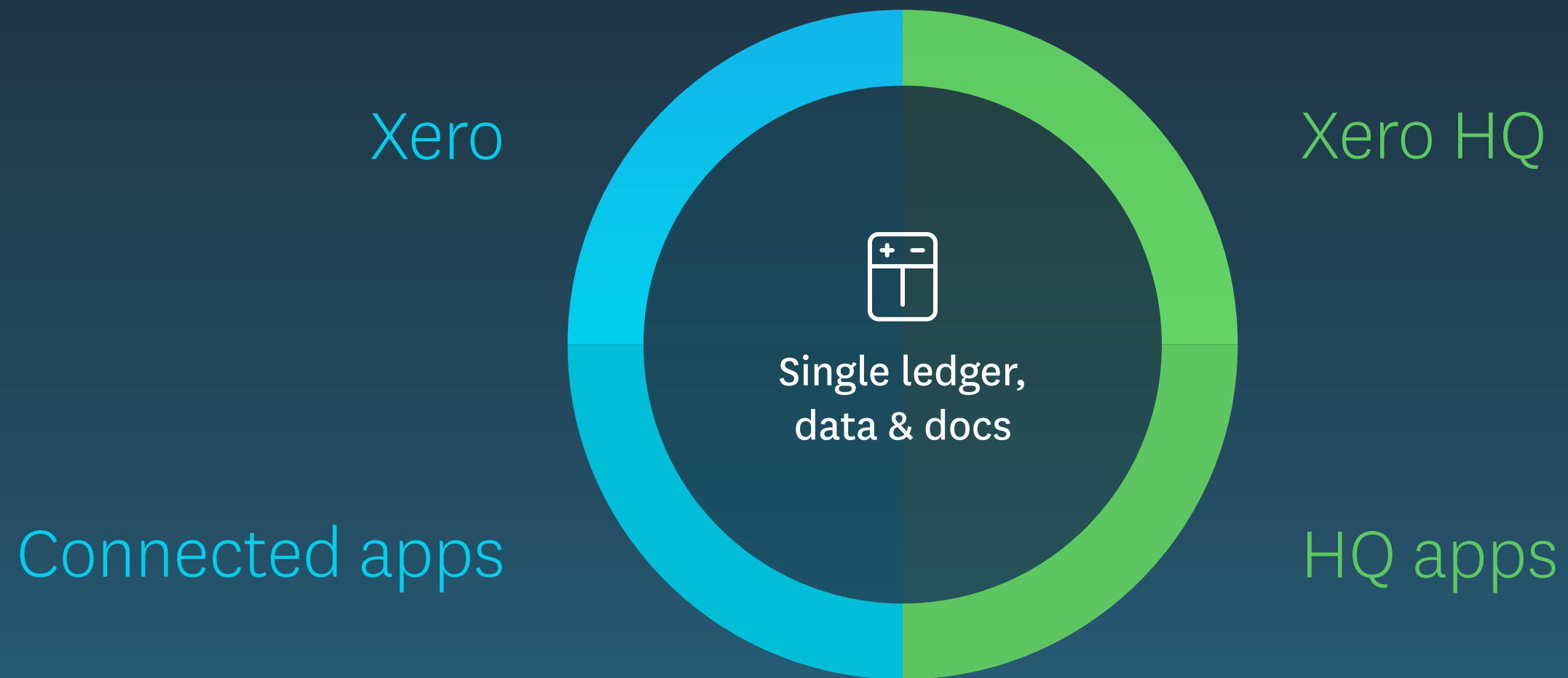


Anna Curzon
CHIEF PARTNER OFFICER



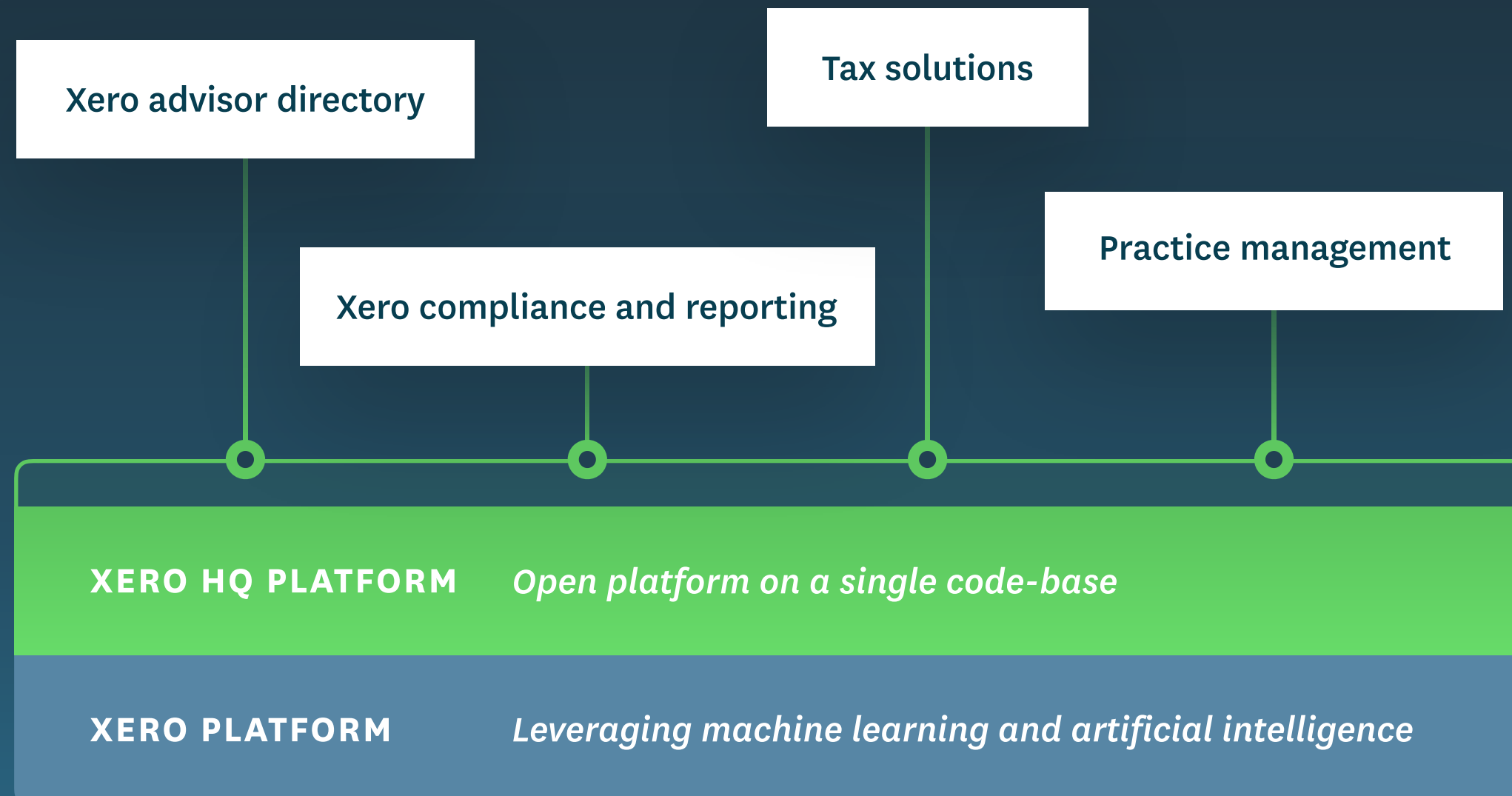
RIGHTWAY, NEW ZEALAND

Xero is a unique global platform that connects small businesses and their advisors



Driven by our world-class partner experience

A vibrant, open community supported by educational resources and tools

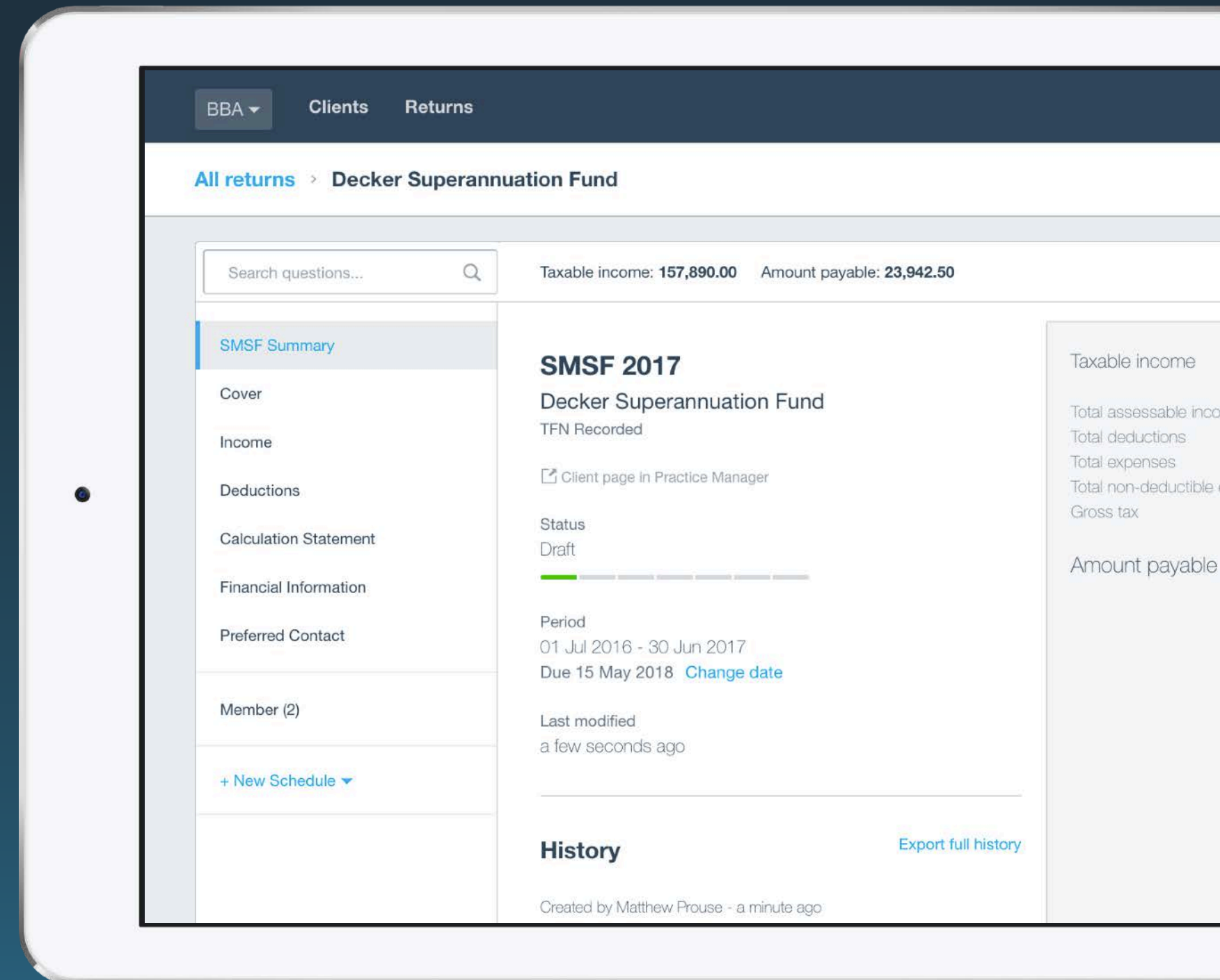


The leading cloud tax software in Australia

Thousands of Australian accounting practices are using Xero Tax for their customers¹

Only comprehensive online tax solution in Australia that has lodged more than **one million returns²**

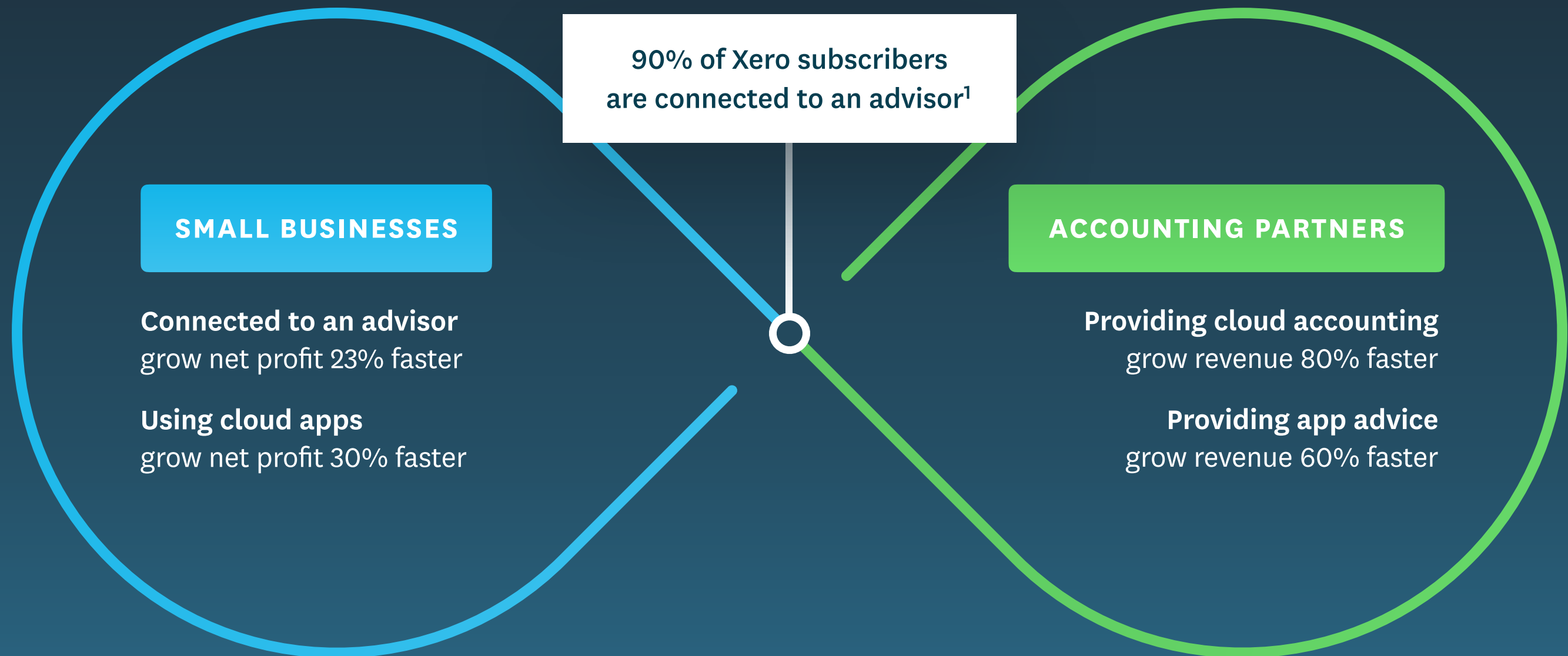
Investing in the platform to reduce the compliance burden for small businesses and their accounting partners



¹ At 30 June 2016

² From 1 July 2016 to 30 June 2017

When small businesses connect with an advisor, they're both more successful



Ideally positioned for more accounting partners to move to the cloud and the golden age for accounting



Proven formula
for growth



Global platform unlocking
power of machine learning
and artificial intelligence



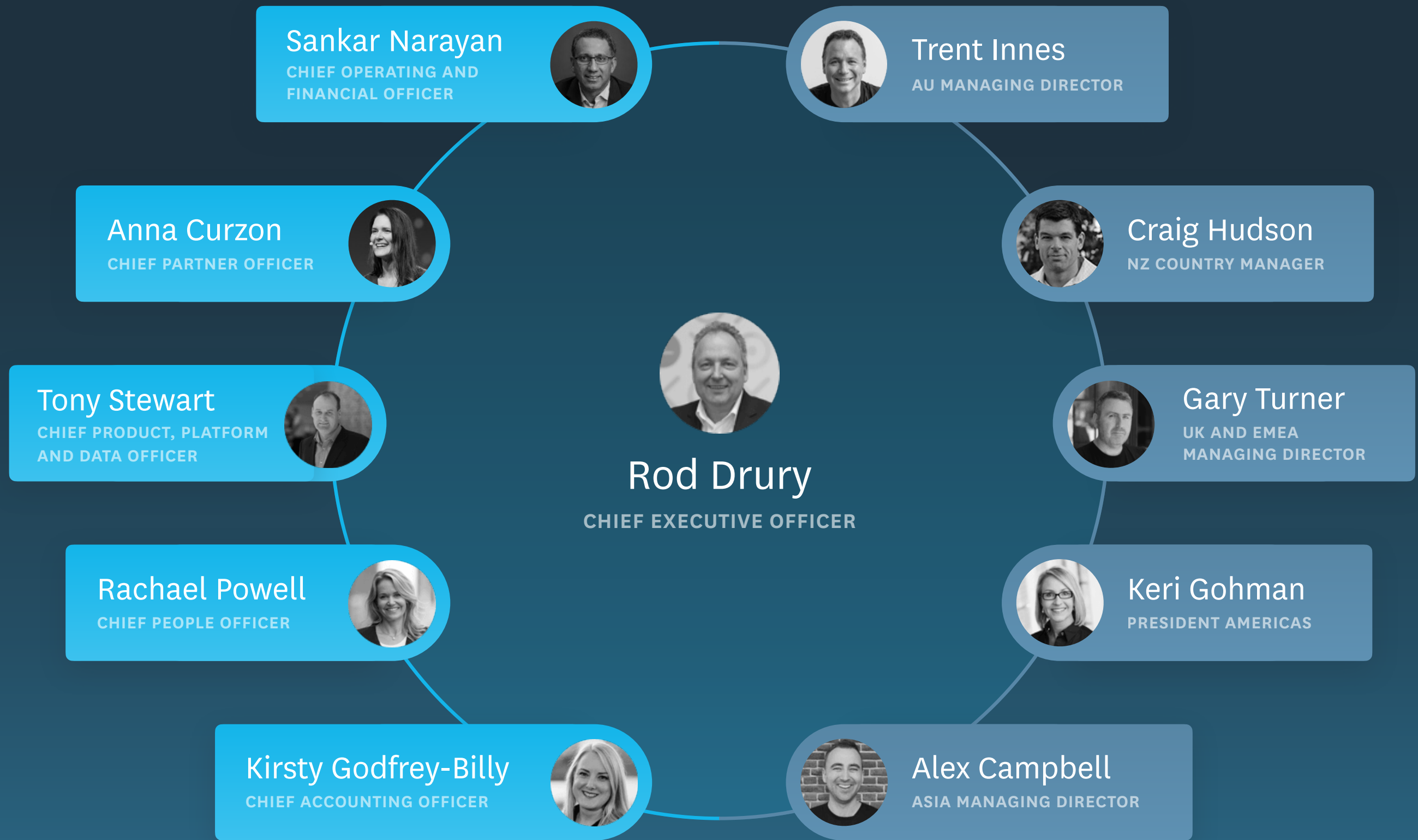
Partnering to build
the future

CEO update



Rod Drury

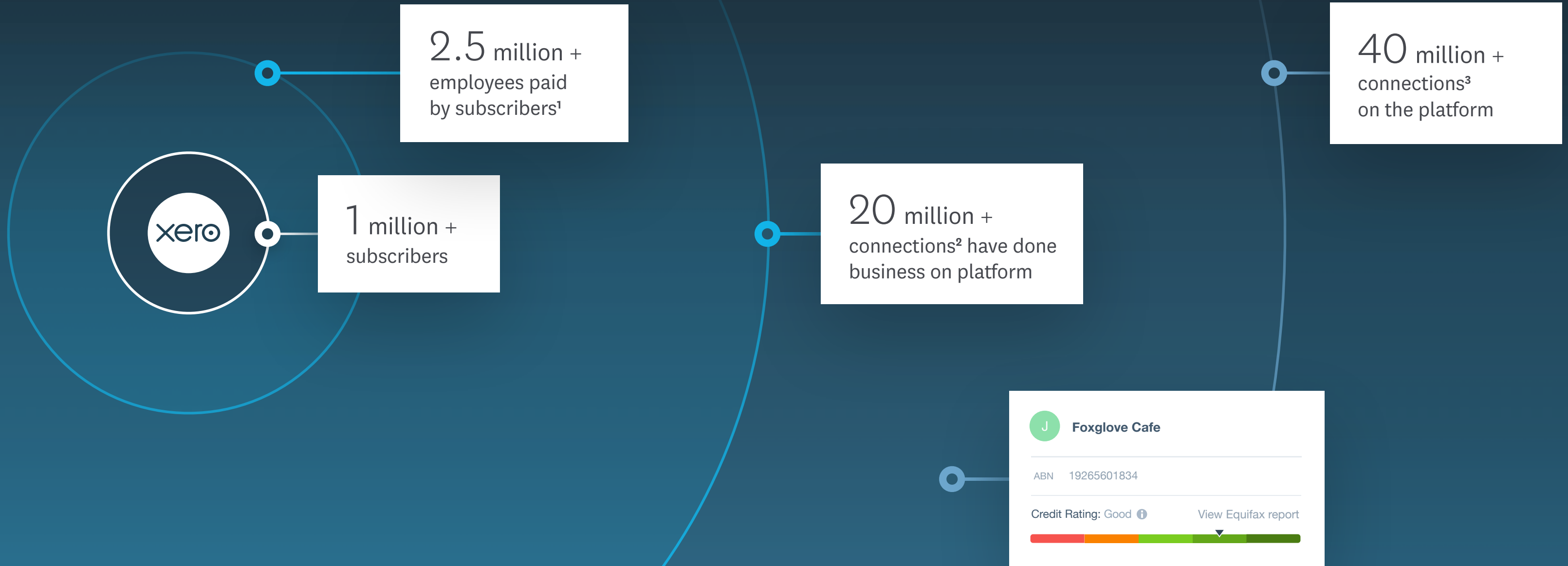
BAWA CAFE, AUSTRALIA



1,035,000
subscribers



The network effect of a cloud business platform

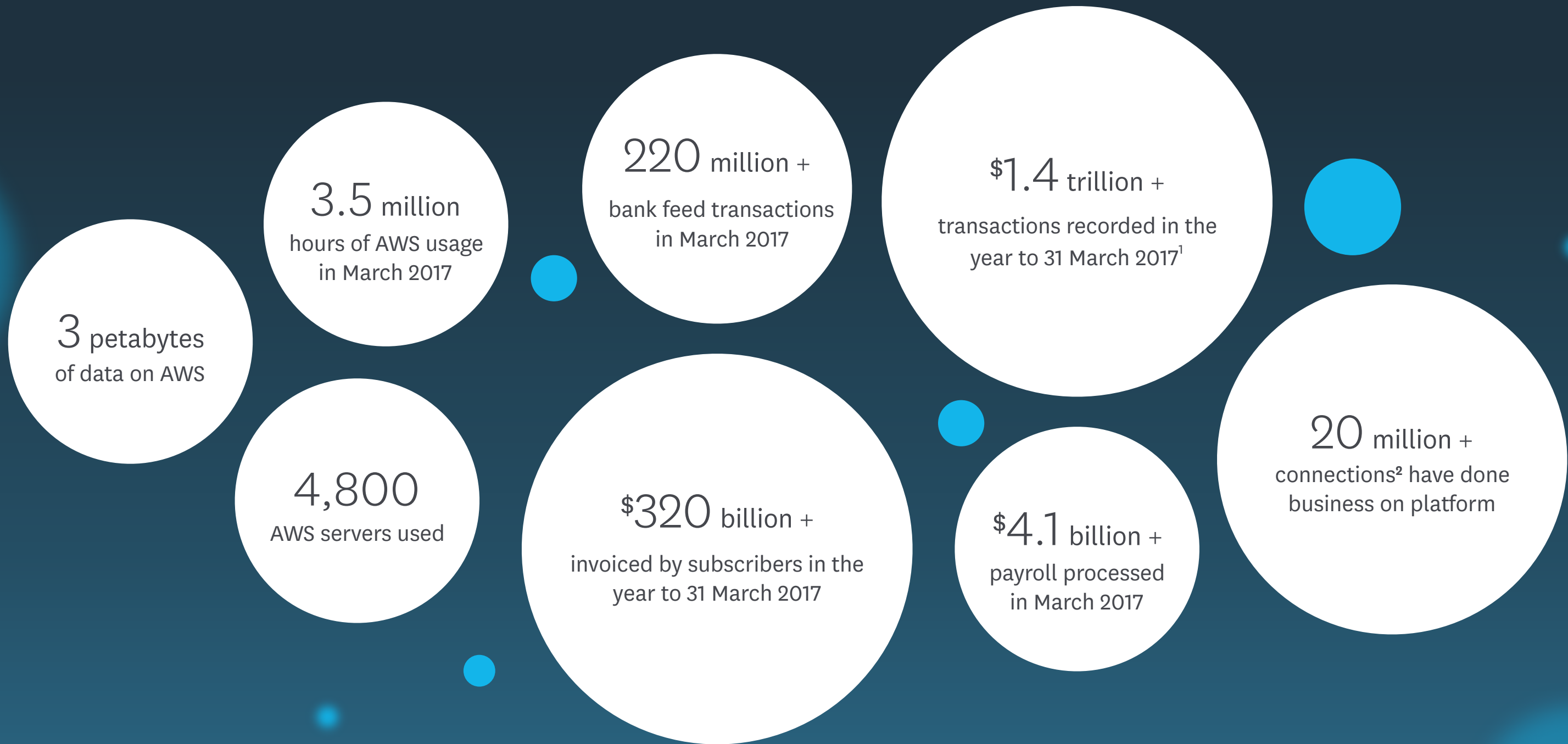


¹ Since the launch of Xero Payroll product

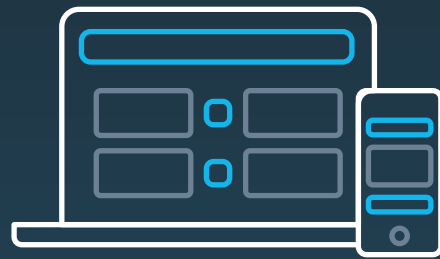
² Unique recipients of an online invoice since launch of online invoicing

³ Unique contacts on Xero since 2006

Global scale of the platform and data



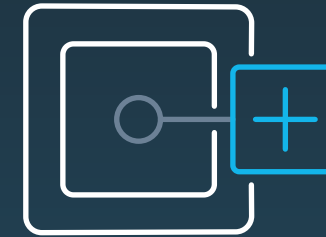
Expanding the power of the Xero platform



Single code base, global cloud platform connecting the small business economy



System of record with a comprehensive view of the operating performance of the business



Integrated applications delivering wide range of business solutions

XERO PLATFORM

A unique comprehensive system of record for small businesses data, built on a single code base optimised for AWS

Growth opportunities

CURRENT POSITION

OPPORTUNITIES

Back office application →

Front office applications

Core accounting →

Per employee services

Small businesses →

Larger businesses

Subscription revenues →

Finweb and other platform revenues

English speaking →

Multi-language

Global platforms will win

- 🌐 Small businesses increasingly connected to global marketplaces
- 📁 Global platforms are motivated to connect for scale
- 🔄 Compelling economics of a single global platform delivers R&D investment efficiencies across multiple geographies
- 🌀 Platforms are consuming applications



Not every business trades internationally, but increasingly more accountants have clients that will

XERO IS A UNIQUE COMPANY

- ✓ Rare example of a true global platform
- ✓ Track record of anticipating market opportunity, market transformation and innovation
- ✓ Redefining business software in the machine learning age
- ✓ Global execution skills
- ✓ Significant growth potential with lowered risk profile
- ✓ Founder-led urgency, vision and passion

Q&A



NEXBA, AUSTRALIA

Appendix



FARMFEED, NEW ZEALAND

Glossary

Subscribers	Subscriber means each unique subscription to a Xero offered product that is purchased by an accounting partner or an end user and which is, or is available to be, deployed
ACMR	Annualised committed monthly revenue represents monthly recurring revenue at 31 March multiplied by 12. Accordingly, it provides a 12 month forward view of revenue, assuming that any promotions have ended and other factors such as subscribers, pricing and foreign exchange remain unchanged during the year
ARPU	ARPU is calculated as annualised committed monthly revenue at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view)
CMR churn	CMR churn is the value of committed monthly revenue (CMR) from subscribers who leave Xero in a month as a percentage of the total CMR at the start of that month. The percentage provided is the average of the monthly churn for the year
Lifetime value (LTV)	LTV is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime (1 divided by CMR churn) multiplied by ARPU multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by segment subscribers, divided by total Group subscribers
CAC	Customer acquisition costs
SBP	Share-based payments
SaaS	Software as a service



Beautiful accounting software

www.xero.com